12/2/86 C4680-1

December 1986 $5.00

Why Ex-Arco Chief Sees $25-$30 Oil Coming
How One Indie Survives in a Metro Market
Forecast: Fast Lube Units to Double by '90

NPN
National Petroleum News

FUEL OIL OUTLOOK: UPBEAT

The picture could quickly change—a severe winter, import fees, a Mideast upheaval. As the season begins, though, things look good for fuel oil marketers—demand is up. Prices are steady. Margins are good.

NATIONAL PETROLEUM NEWS

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There's something different going on in the fuel oil business this winter and it's not just lower prices. Our cover report looks at how things are shaping up as another winter rolls around. **Page 36**

When an oilman as knowledgeable as former Arco Chairman Robert Anderson says the industry is on the brink of dramatic change, it may be time to begin putting up the storm shutters. Here's a report on this dynamic leader. **Page 23**

When you've been fighting major competition for two generations, your family learns to roll with the punches. Here's a look at how jobber Bob Phillips thrives under such conditions. **Page 48**

• TRENDS

Top Assn. Pros Phasing Themselves Out

By this time next year, a treasure trove of knowledge and skills, horse sense and unique talents—about a century and a half's worth to be specific—will have been lost to the petroleum industry.

In one way, the loss isn't all that cold black and white; in another, it's pretty well tantamount to that.

The people involved will continue to be available as "consultants" for another year or so, but since it's only natural for new regimes to want to run things their own way, most "gray beards," while ornamental and helpful, also are often considered excess baggage.

What's causing this brain drain is the near- simultaneous retirements of the top professionals in the national trade association field—the key staff men who have probably done more to keep innumerable projects and legislative battles in hand than non-association people realize. For example, it takes time, patience, hard work, thick skins and, more often than not, just old-fashioned prayers to keep progress on the horizon.

Two of the elite have already gone; another goes in January; another next June; and still another next September. Cumulatively, their backgrounds embrace about 150 years of trade association experience. These are the key people who are or will be disappearing in this brief 15- to 16-month period:

• Charles Burkhardt, who stepped down from the presidency of New England Fuel Institute last April at the age of 71. He had been the leader of that organization from its inception in the late 1950s. Some people derided his iron will and his passion for control, but the NEFI that stands today is a testimonial to his leadership.

• Howard Upton, who likewise has been the chief staff executive at Petroleum Equipment Institute since the early days. He is stepping down as of next June 1. His weekly newsletter is recognized as one of the finest of its kind both within the petroleum and equipment fields, and among trade associations generally because of his incisive knowledge and his ability to put it all together in a coherent fashion. PEI, strong and vibrant, is his monument, too.

• Lloyd Unsell, the old pro at Independent Petroleum Assn. of America, is retiring in January. Unsell is president of IPAA, an extremely articulate defender of small independent producers and a very clever infighter in the Washington arena. He started out as a public relations man back in the late '40s when percentage depletion and intangible drilling costs—foreign subjects to most marketers, but vital ones where the industry as a whole was concerned—were critical issues for oil men everywhere.

• Steve Potter, another ex-public relations man who climbed the ladder to the executive vice presidency of American Petroleum Institute, is bowing out next September when he reaches the normal retirement age of 65. Potter's history dates back to the old American Petroleum Industries Committee which used to fight gasoline tax proposals anywhere and everywhere at the drop of a hat, and includes time and service with the Committee on Public Affairs—successor to the old Oil Industry Information Committee—before achieving his present role as No. 2 man in the API hierarchy.

Still another stepper-downer who has played key roles in national marketer affairs was Bill Hall, of the Independent Oil Men's Assn. of New England [*NPN*—Nov. '86, p85]. Hall had a major role in the original study and the reshaping of the old National Oil Jobbers Council, including its transference from a New England locale to Washington, where it renamed itself several years ago as the Petroleum Marketers Assn. of America. It now packs a mighty wallop as the marketers' voice on things legislative and promotional, such as oil heat.

Among the vets who have been doing especially notable jobs for 20 to 30 years are Empire State Petroleum Assn.'s Bob Lynch (also a key figure in the old National Oil Fuel Institute); Ohio Petroleum Marketers Assn.'s Roger Dreyer; Illinois Petroleum Marketer Assn.'s William Deutsch; Missouri Oil Jobbers Assn.'s John Hahn; North Carolina Oil Jobbers Assn.'s Don Ward; Independent Petroleum Assn. of Connecticut's Charley Isenberg; Midwest Petroleum Marketers Assn.'s Don Woodrick; California Independent Oil Marketers Assn.'s Jim Devine; and Self-service & Multiple Pump Assn.'s Paul Erdos. There are others, many others, but these are only a few. —*J. Richard Shaner*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

SEPTEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .864	$ .797	$ .860	$1.010
Regions:				
Northeast	.863	.787	.839	. 99
North Central	.862	.812	.865	1 .014
South	.841	.768	.834	.995
West	.895	.820	.896	1.055

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	10/31/86	11/1/85
Gasoline (total)	220,996	216,000
Gasoline (Unleaded)*	120,798	108,099
Jet Kerosine	43,302	36,509
Distillates	150,991	124,913
Residual	47,969	49,036

**Included in gasoline total.*
Source: American Petroleum Institute.

Downstream Earnings Bolster Oil's Corporate Nets—Again

Though the third-quarter and nine-month earnings reports of the top 20 oil companies seem bedraggled on the surface, they're pretty as a picture when the downstream segments are isolated from the rest.

The downstream sectors are the areas where making money wasn't necessarily a golden objective of the big oil companies in the past. They were concerned more about just getting rid of the stuff. The current third-quarter and nine-month returns, viewed in this light, make happy hour conversation topics, just as those of the second quarter and the first half did several months ago [*NPN*—Sept. '86, p30].

Corporate third-quarter earnings were generally hit in varying degrees by the depressed crude oil and natural gas prices, and by write-offs and the administrative assignment of losses to reflect asset sales and depreciated properties. At that, however, Exxon pushed its nine-month earnings close to the $4 billion mark and second-place Mobil, even with a weak third quarter, managed to get above $1.2 billion for the same nine-month period. Sun had a spectacular 179% increase for its nine-month earnings, but that was mostly because last year's total was depressed by a $160 million loss in the third quarter.

Ashland has already completed its fiscal year and it showed a net of $209 million for the 12-month period ending Sept. 30. This was a 42% improvement over the preceding year.

Only Phillips and Amerada Hess, in addition to Exxon, had plus signs in the corporate returns for the third quarter.

It was in downstream operations, however, that the financial reports had their special marketing beacon-light effects.

Upwards of a half dozen companies reported they had higher marketing profits than their corporate nets. Mobil, for example, earned $182 million in the third quarter for the company as a whole, while downstream earnings were reported at $321 million. Similarly, Texaco said its nine-month earnings were $675 million, and its downstream operations produced $835 million. There were others like that, too, including Amoco, Standard Oil and Phillips.

Exxon, Mobil and Chevron made significantly more in their overseas marketing operations than they did domestically. Nevertheless, let it not be said that they fared poorly in the U.S. Exxon's domestic downstream earnings were up 63% in the third quarter and 219% in the nine-month period. In the same vein, Mobil was up 63% in the third quarter and 231% in the nine-month frame. Chevron was up 155% for the quarter and 76% for nine months.

Exxon and Mobil both made more than $1 billion in downstream operations alone in the first nine months of this year. Not all companies treat downstream operations alike, however. Some restrict downstream to refining and marketing, while others throw in transportation and chemicals.

All things considered, the downstream reports were excellent for both the third-quarter and the nine-month returns for just about everybody. *NPN*

Third-quarter and Nine-month Earnings Reports

(in millions of dollars)

Company	3rd Qtr. 1986	3rd Qtr. 1985	% Chng.	9 Mos. 1986	9 Mos. 1985	% Chng.
Exxon	$1,055.0	$995.0	6.0%	$3,880.0	$3,065.0	26.6%
Mobil	182.0	(116.0)	—	1,204.0	615.0	95.8
Chevron	208.0	245.0	(15.1)	801.0	946.0	(15.3)
Texaco	162.0	301.0	(46.2)	675.0	926.0	(27.1)
Shell	133.0	365.0	(63.6)	628.0	998.0	(37.1)
Amoco	13.0	490.0	(97.3)	582.0	1,563.0	(62.8)
Tenneco	(246.0)	(142.0)	—	(42.0)	(44.0)	—
Arco	102.0	403.0	(74.7)	551.0	344.0	60.2
Standard Oil	52.0	346.0	(85.0)	(376.0)	1,079.0	—
Phillips	113.0	93.0	21.5	217.0	323.0	(32.8)
Sun	69.0	(160.0)	—	315.0	113.0	179.0
Unocal	21.8	158.7	(86.3)	126.6	459.8	(72.5)
Amer. Hess	41.8	36.4	14.8	(277.8)	105.4	—
Dia. Shamrock	(97.9)	52.8	—	(73.4)	(652.5)	—
Ashland*	34.3	46.4	(26.1)	208.6	146.7	42.2
Kerr-McGee	(325.8)	39.8	—	(300.5)	108.8	—
Pennzoil	(10.1)	44.4	—	(1.1)	154.3	—
Murphy	(0.5)	18.6	—	13.0	62.6	(79.2)
Amer. Petrofina	5.7	10.8	(47.2)	(29.6)	29.2	—

*Fourth quarter and full year; fiscal ends 9/30.

Downstream: The Nets Are Brighter—Much Brighter

(in millions of dollars)

Company	3rd Qtr. 1986	3rd Qtr. 1985	% Chng.	9 Mos. 1986	9 Mos. 1985	% Chng.
Exxon (total)	$460	$249	85%	$1,640	$384	327%
domestic	106	65	63	463	145	219%
foreign	354	184	92	1,177	239	392
Mobil (total)	321	109	85	1,040	384	453
domestic	80	49	63	301	91	231
foreign	241	60	302	739	97	662
Chevron (total)	207	60	245	643	315	204
domestic	130	51	155	337	192	76
foreign	77	9	756	306	123	149
Texaco						
worldwide	212	71	199	835	111	652
Shell						
domestic	78	35	123	284	102	178
Amoco						
worldwide	133	102	30	325	203	60
Arco	94	93	1	305	235	30
Standard Oil	174	91	91	328	294	12
Phillips (total)	126	114	11	394	236	67
domestic	128	111	15	381	217	76
foreign	(2)	3	—	13	19	(32)
Sun	29	30	(3)	208	104	96
Amer. Hess	51.4	(14.8)	—			
Ashland**	70	84	(16)	326	213	220
Kerr-McGee	1	13	—	6	15	(59)

*Operating profits, pretax; **Fourth quarter and full year; fiscal ends 9/30.

Supply, Price and Margin Outlook Has Fuel Oil Marketers in Upbeat Mood

There's a discernible upbeat tick in the fuel oil industry this winter—something that hasn't been evident in recent years. It is there even though wholesale and retail prices are depressed to what might be called abnormally low levels.

It is there because supplies are adequate and no one is worried about run outs or shortages.

It is there because margins are generally "comfortable," perhaps even exciting in some marketplaces. Independents usually shy away from talking about margins, but it's known that they are ranging from 25¢ to 35¢ gal., which isn't bad money when retail prices are running around 75¢ to 80¢ gal. in the East.

The low retails not only are enhancing the competitive position of distillates vis a vis natural gas, but also they have distinct consumer appeal. Federal forecasts indicate that if prices follow the 1986-87 projections, home owners' winter heating bills will be significantly lower—maybe 10% to 15% by the end of the heating season.

The good supply, price and margin outlook is spurring interest in the home heating oil business. Acquisitions and expansion programs are stirring up the industry and changing its face, especially on the Atlantic Seaboard, where its biggest markets are located.

One result is that reinvestment in the industry is said to be heavier this winter than the pattern of recent years.

Equipment sales are better, too, industry sources say.

New Interest in Programs

Another reflection of the subtle optimism is the embrace the wholesalers and retailers are giving local oil heat promotion programs, spurred mostly by the successes and materials of the Greater New York Area's Metropolitan Energy Council.

MEC, as it is generally known, has been making its advertising and promotion materials available to all comers literally on a cost basis.

In August, as a more specific example, was the exceptionally well attended National Oil Heat Promotion and Marketing Conference, sponsored by Petroleum Marketers Assn. of American, in Boston, Mass.

There was no question among the 300-plus attendees, who got there despite some of the nastiest flying weather of the year, that oil heat was getting its footing again [*NPN*—Sept. '86, p14].

Again, there were attendees and participants from the East Coast, the Midwest, the Pacific Northwest and Canada, all bubbling with bright ideas and hopes for a healthier, more competitive fuel oil industry.

Even more exciting—and intriguing—was the cooperative venture in the production of two new films for builder, realtor and consumer audiences, and the ongoing plans to produce several more if sufficient financial support can be obtained from the industry.

Especially significant was the fact that the film programs were pushed, promoted and prepared by two manufacturers—Bert Watling, of The Carlin Co., Windsor, Conn., and John Beckett, of the R.W. Beckett Co., Elyria, Ohio, who represented the National Oil Progress and Energy Committee.

Ironically, this committee was an offshoot of the Centennial Committee of the year before. It jettisoned its original instructions to build a museum for the artifacts of oil heat in favor of a headier concept that would look to the future, not dwell on the past.

The Big Get Bigger

Petroleum Heat & Power, of Stamford, Conn., the biggest independent retailer of No. 2 home heating oil in the land, acquired 14 companies in the one-year period of Oct. 15, 1985 through mid-October 1986.

The additions brought with them 54 million gal. of business, raising Petro's grand total to 300,776,000 gal. of No. 2.

Said bustling President Irik Sevin: "The acquisitions put us in four new markets (Staten Island, N.Y., Allentown, Pa., Ridgefield, Conn., and Trenton, N.J.) and gave us 52,000 new accounts.

"We're now in 16 markets in eight states and we have 23 branches. And there's a reasonable likelihood that we'll see more additions and marketplaces before the year is out."

The next two biggest independents, Meenan Oil Co., of Syosset, N.Y., and Whale Oil Co., of Brooklyn, N.Y., have ongoing expansion programs, too, but their numbers were not available.

Among other absorbing developments were the entrance of Cargill, Inc., the big internationally renowned grain trader, into the wholesale fuel oil markets via the purchase of the old North East Petroleum, which was spun off by Charter Oil, of

By J. Richard Shaner
Executive Editor

Distillate Stocks Firm As Heating Season Opens

Generally speaking, inventories of distillate heating oils were in relatively good shape as the 1986-87 heating season got underway.

At 151 million bbl. and with a warmer-than-normal weather forecast for the balance of 1986, there seemed to be little reason to be concerned about the adequacy of stocks on either the primary or secondary levels. Primary stocks on Oct. 1 were 28% above those for the comparable date of last year. Drawdowns in September were low, indicating many distributors had already had themselves in ready-to-go positions.

This is the stock picture on a regional basis in comparison to last year and the preceding year:

Primary Distillate Stocks

	10/1/86 (millions of bbl.)	10/1/85	10/1/84
Total U.S.	150.8	117.4	142.9
East Coast	68.4	47.1	57.5
Midwest	32.0	32.0	38.6
Gulf Coast	36.3	24.6	32.3
Rocky Mounts.	2.8	2.6	3.3
West Coast	11.3	10.4	11.2

Jacksonville, Fla., and the overnight emergence of Champion Oil, of Greenwich, Conn., a smallish wholesaler, into a full-blown retailer with the acquisition of four subsidiaries sold off by Chevron in its departure from the Northeast [*NPN*—Sept. '86, p44].

Another new entrant to be watched this winter and next is John Kaneb, who bowed out two years ago in the sale of his family firm to Charter, but is now wholesaling and terminalling again with a new firm called Catamount Petroleum.

There are reports that Kaneb is eyeballing the retail end of the business and is rapidly expanding his basic staff for a whole new career in distillates and resids.

Still another significant event is the about-face being taken by Ultramar Petroleum Corp., the American subsidiary of the Ultramar Group in London. It came on with a rush three years ago in buying Pittson Corp., then adding The Augsbury Corp., an upstate New York marketer, and announcing plans for major goals in the Northeast to get full utilization of its sister company's 100,000 b/d refinery in Montreal.

It recently sold some Connecticut and Massachusetts terminals and accounts to a Connecticut/Rhode Island jobber (See East Coast column, Page 18) and, at last reports was supposed to be talking about closing down its marketing headquarters in Montvale, N.J.

Atlantic Petroleum Co., which entrepreneur John Deuss started up a year ago when he bought up most of Arco's collection of gasoline stations in Pennsylvania and New York, also is in distillates now via the purchase from Ultramar of some of its stations and fuel oil operations in the Mid-Atlantic area to the Canadian border.

Deuss has been quoted as saying he is shooting for a business of 500,000 b/d by 1990. That can only mean he's action-minded and on the prowl.

Other pistol-packers in East Coast adventures are Belcher Oil and Getty Petroleum. Both are avidly looking for acquisitions, whether they be gasoline, fuel oil or both.

In mid-October, both Belcher and Getty were looking at J.R. Sousa and Sons, Revere, Mass., a big gasoline independent, and Getty simultaneously was still chasing after Charter Oil and its 400 service stations on the seaboard.

Supply Forecasts

Otherwise, the distillate and residual fuel oil segments seem to be in for a rather prosaic winter. There could be an increase in prices after the first of the year—not much, but nevertheless a boost of sorts.

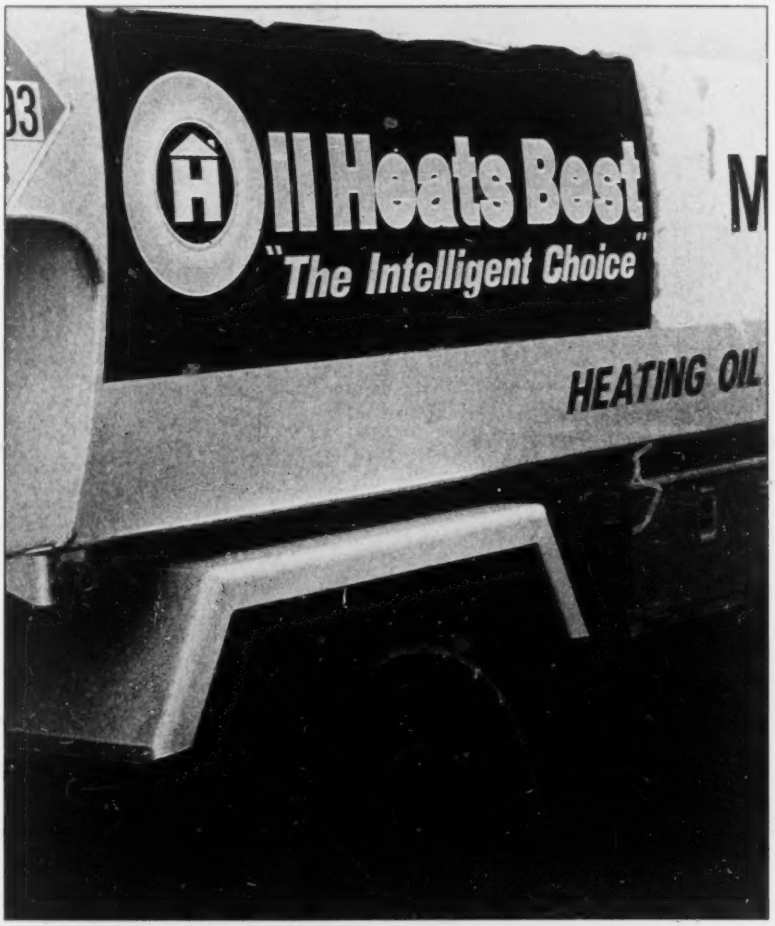
Like all forecasts, these observations can go right out the window, however, if the weather takes a very bad turn for the worse or if war or political problems should disrupt the flow of crude oil from the Middle East.

The OPEC cartel is struggling desperately to regain the upper hand by curtailing production and putting supply more in line with demand. The track record of the member countries isn't all that good, though, so this is a factor that has about as much reliability as a weather forecast—long-term or short-term.

Feds Forecast Upturn

The federal government's most recent forecast projected distillate demand to average 2.7 million b/d in the third quarter, rise to 3.1 million b/d in the fourth quarter, then peak at 3.3 million b/d in the first quarter of the new year before winding down to an average of 2.9 million b/d in the April-June finale.

For the calendar year of 1986, the fed-



The outlook is good, but marketers have fingers crossed as trucks start rolling.

eral forecast suggests the average will be 2.9 million b/d, which would be an increase of 2.1% over the preceding year. For 1987 as a whole, the government expects consumption to average 3 million b/d, which would be up 3.4% over the current year. The most notable part of these increases, however, is that they are not home heating items—they reflect the spiraling demand of the transportation sector—the big trucks and other users of the diesel cuts.

Wholesale prices for No. 2 are expected to average out, ex taxes, to 41¢ and 44¢ gal., respectively, in the third and fourth quarters of this year to 49¢ gal. in the first half of 1987. Retails were projected at 65¢ to 68¢ gal. in the first leg of the winter season to 77¢ to 75¢ in the first and second quarters of 1987.

If these forecasts pan out, they would mean decreases of 39% in the wholesale cost of No. 2, and 28% in the consumer price. Things may get a little better as the year goes on and the 1987 price average may be a bit higher than 1986. But that remains to be seen.

Refinery capacity is said to be adequate, even if "long-shot" cold snap hits.

Petroleum Marketers Assn. of America generally agreed with the concept that this would be a dull winter for fuel oil marketers, but qualified everything with a variety of "ifs" and warned "there could be a limited price spike" in the months ahead.

PMAA phrased it this way: "On the supply side, this winter will hand-to-mouth on the part of refiners and suppliers, and primary inventories should be low. If there is an unexpected upturn in demand, the supply could be tight both for refiners and from competition for imports."

The best thing to do, said PMAA, is "watch your inventories and those of your supplier."

'No Problem,' Says API

American Petroleum Institute, in a mid-October commentary, said its analysis indicates few, if any, problems ahead for supply and demand.

Even if a long-shot cold January comes along, API said, existing refinery capacity could take care of things. The Institute said that last winter, existing capacity provided for 92% of the demand while inventories accounted for 3% and imports 5%.

At the present time, API said, the industry has a nominal supply capability of 3.5 million b/d of No. 2. This is approximately 300,000 b/d more than the government forecasts. A very cold January would add a surge of 250,000 b/d to demand. By stepping up utilization rates for short periods and by drawing down on stocks, plus a small bit of help from imports, the industry could quickly make available as much as 4.2 million b/d if necessary. This would be more than 700,000 b/d in extra supplies to meet consumer requirements.

Although API doesn't say so, there could be some hit and miss supply problems in a cold January, however. Bitter weather could have a substantial impact on transportation and distribution problems, meaning that some jobbers and consumers might hit into run-out situations—either because their supplier was short or they themselves were inaccessible for deliveries.

Nagging Questions Remain

The big question, as always, is what will happen to the international and domestic crude oil prices. The OPEC suppliers and domestic producers, as well, are trying to get the crude prices up closer to the $18 to $20 bbl. level.

This would improve the cash flows of

1985 Distillate Boxscore: 12 States Up, 38 Down

Although as many as 12 states increased their consumption in 1985, distillate fuel oil sales slumped 5.7% last year, according to the federal government's latest report on distillate sales in the U.S.

In its state-by-state breakout by categories of use, the new report said distillate sales aggregated 43.1 billion gal. in 1985, compared with 45.7 billion gal. the year earlier. That's a volume decline of 2.6 billion gal.

The percentage increases ranged from as little as 0.5% for Missouri to a spectacular 58% for Hawaii. The latter figure is essentially deceiving, however, inasmuch as the liquid volume differential is only 69 million gal.

States on the plus side in 1985, in addition to Missouri and Hawaii, were Alaska, Florida, Maine, Mississippi, Montana, New Hampshire, New Mexico, Vermont, Washington and Wyoming. The big losers, percentagewise, were Illinois, down 19%, and Rhode Island, minus 15.1%.

A discouraging part of the picture, for the fuel oil industry at least, is that 9% of the sales declines took place along the Atlantic Seaboard where two-thirds of the distillates are consumed.

Sales of distillates used primarily for space and water heating slipped 1.1% in 1985, the report said, while sales of distillates for highway use—the conventional diesel cut—rose 2.9% at the same time. This is a trend of recent years that is now becoming more pronounced. Space and water heating distillate sales amounted to 12.2 billion gal. in 1985, while those of the diesel variety exceeded 17.3 billion gal. In other words, space and water heating fuels took only about 32% of the distillate sales, while diesels accounted for 40%.

Omitted from the table opposite are the sales totals for oil company use, electric utilities, railroads and vessel bunkering, military, off-highway and miscellaneous others. These sales are included, however, in the U.S. totals in the last column.

For reference, the government defined residential use as primarily private households; commercial use as apartment buildings, motels, laundries and nonmanufacturing facilities; industrial as mines, smelters and manufacturing/processing; farms as agricultural machinery, crop drying, smudge pots and some space and water heating; and highway consumption as mostly motor fuel.

Distillate Sales by States and Categories in '85

(millions of gal.)

	Residential		Commercial		Industrial		Farm		Highway		U.S. Totals		% Chng.
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985	'84 v. '85
New England	1,962	1,909	593	540	114	108	20	15	662	648	3,520	3,365	(4.4)
Connecticut	480	449	167	163	41	40	3	1	184	184	897	852	(5.0)
Maine	167	225	72	45	17	10	6	4	117	126	395	426	+7.8
Massachusetts	906	827	281	262	33	33	4	2	253	245	1,578	1,458	(7.6)
New Hampshire	156	149	21	25	5	7	2	2	41	42	232	237	+2.2
Rhode Island	149	157	30	20	10	8	1	X	33	12	239	203	(15.1)
Vermont	103	102	22	24	7	10	4	6	36	39	179	188	+5.0
Mid-Atlantic	3,826	3,570	1,491	1,170	422	383	119	143	1,886	2,043	8,509	7,949	(6.7)
Delaware	70	61	16	15	11	9	5	7	47	51	166	151	(9.0)
District of Columbia	29	23	51	34	X	X	X	X	21	21	139	109	(21.6)
Maryland	313	231	144	89	55	43	20	22	208	238	878	786	(10.5)
New Jersey	828	832	370	259	73	69	10	12	436	446	1,930	1,788	(7.4)
New York	1,518	1,426	616	545	129	110	40	55	439	519	2,854	2,766	(3.1)
Pennsylvania	1,068	997	295	227	154	152	44	47	735	770	2,542	2,348	(7.6)
South-Atlantic	690	578	586	541	340	302	266	297	2,623	2,736	5,686	5,429	(4.5)
Florida	25	26	112	168	74	40	75	95	684	707	1,294	1,308	+1.1
Georgia	12	16	112	71	41	46	73	73	634	665	1,037	1,007	(2.9)
North Carolina	288	225	151	122	64	65	56	56	502	513	1,190	1,083	(0.6)
South Carolina	61	53	43	39	30	37	25	23	291	293	511	508	(0.6)
Virginia	278	236	141	113	64	60	35	47	408	438	1,168	1,091	(6.6)
West Virginia	25	21	27	28	66	55	3	3	124	121	486	431	(11.3)
Total PAD 1	6,478	6,057	2,670	2,251	875	793	405	455	5,172	5,427	17,716	16,743	(5.5)
Illinois	104	97	254	170	70	67	192	155	574	587	1,678	1,360	(19.0)
Indiana	130	109	167	113	99	113	96	67	692	693	1,370	1,275	(6.9)
Iowa	55	61	66	48	16	11	167	178	314	298	688	649	(5.7)
Kansas	2	3	50	30	21	9	123	121	252	261	644	609	(5.4)
Kentucky	37	35	85	65	87	176	46	42	336	329	998	907	(9.1)
Michigan	266	255	134	101	77	64	81	79	426	455	1,108	1,060	(2.5)
Minnesota	169	164	148	117	34	34	127	138	285	289	837	821	(1.9)
Missouri	38	35	87	63	29	39	99	99	438	448	815	819	+0.5
Nebraska	13	15	45	34	7	9	161	154	182	186	528	509	(3.6)
North Dakota	49	48	23	21	18	12	99	96	91	93	336	314	(6.5)
Ohio	168	191	193	87	125	109	64	59	811	831	1,579	1,511	(4.3)
Oklahoma	4	4	32	30	91	88	58	75	402	388	801	768	(4.1)
South Dakota	33	32	12	12	5	3	67	65	96	95	224	211	(5.8)
Tennessee	14	11	107	132	33	55	48	47	503	513	1,024	930	(9.2)
Wisconsin	267	275	203	136	23	17	121	99	343	350	1,019	949	(7.0)
Total PAD 2	1,349	1,334	1,605	1,159	736	804	1,551	1,475	5,744	5,817	13,649	12,712	(6.9)
Alabama	2	1	33	38	52	29	36	35	346	358	631	602	(4.6)
Arkansas	X	X	53	34	15	8	127	143	286	288	550	533	(3.1)
Louisiana	X	X	73	109	51	52	38	31	362	326	1,172	1,100	(6.1)
Mississippi	X	X	31	31	48	28	51	45	269	280	543	554	+2.1
New Mexico	X	X	17	13	43	62	8	9	168	178	278	303	+9.0
Texas	12	1	311	279	203	285	279	229	1,514	1,550	3,669	3,336	(9.1)
Total PAD 3	14	3	518	504	412	463	539	493	2,944	2,980	6,843	6,428	(6.1)
Colorado	5	4	30	25	23	11	67	46	202	199	439	379	(13.7)
Idaho	22	23	15	14	14	9	51	45	94	97	227	218	(4.0)
Montana	17	13	41	32	17	10	48	89	114	107	355	430	+21.1
Utah	6	3	29	20	36	25	7	6	131	132	272	235	(13.6)
Wyoming	12	2	8	16	35	28	10	16	104	116	280	298	+6.4
Total PAD 4	61	45	124	107	124	83	184	202	644	651	1,573	1,561	(0.8)
Alaska	61	52	54	37	27	27	1	X	99	107	345	412	+19.4
Arizona	X	X	11	19	52	36	30	15	229	268	415	410	(1.2)
California	7	6	352	141	162	125	365	380	1,399	1,387	3,310	2,943	(11.1)
Hawaii	X	X	5	5	2	3	12	13	18	19	119	188	+58.0
Nevada	11	11	18	13	25	34	11	9	77	93	235	218	(7.2)
Oregon	95	95	93	55	79	33	48	31	196	244	672	619	(7.9)
Washington	139	124	89	171	61	39	57	28	275	267	795	825	+3.4
Total PAD 5	313	289	621	442	407	298	524	476	2,293	2,404	5,891	5,615	(4.7)
Total U.S.	8,216	7,728	5,538	4,463	2,556	2,441	3,202	3,102	16,797	17,280	45,672	43,059	(5.7)

X equals less than 1 million gal.
N.B. Some of the totals may not add up due to rounding off of numbers.
Source: Energy Information Administration, *Petroleum Marketing Monthly*—July, issued in October.

'Watch your inventories and those of your supplier.'

the refiners and the marketers of all petroleum products, not just distillates. Higher crude and product prices could be lifesavers for some marketers caught betwixt high payouts versus lower cash flows.

Primary stocks of distillates were in good shape as the heating oil season got underway. In early October, they topped 150 million bbl., which was 27 million bbl. more than they had available at the same time last year, and about the same level that existed in late October 1984.

Secondary and tertiary inventories also were believed to be in better than average shape. Many distributors took advantage of some of the low summer prices to lay in their stocks earlier than they had been doing. Some even made very late season or early summer fills of consumer tanks to close out their old inventories and set themselves up for new additions at better prices.

In mid-October, the federal government released its annual report on Fuel Oil and Kerosine Sales (see table on this page).

This report said that in 1986, sales of distillate, kerosine and residual exceeded 60.9 billion gal., down 7.5% from 1984. In keeping with the conventional pattern, distillates accounted for 70.7% of the total sales, residual 26.4% and kerosine 2.9%.

In 1985, transportation use (on-highway diesel, vessel bunkering and railroads) accounted for more than half of the distillate demand for the first time. The transportation sector was credited with 50.5%. This was an increase of 3.4% over 1984. On-highway diesel fuel sales amounted to 17.3 billion gal. in 1985, the government said. NPN

Reinvestment and equipment purchases are up, industry sources say, reflecting short-term and perhaps some long-term optimism.

Sales of Distillates, Resid and Kerosine in 1985

(millions of gal.)

	Distillates		Residual		Kerosine	
	1984	1985	1984	1985	1984	1985
U.S. Total	45,672	43,059	18,348	16,070	1,772	1,748
Residential	8,216	7,728	—	—	652	663
Commercial	5,538	4,463	1,539	1,366	691	367
Industrial	2,556	2,441	3,499	3,345	221	254
Oil Company	848	684	1,250	945	—	—
Farm	3,202	3,102	—	—	44	59
Electric Utility	649	523	6,980	5,506	—	—
Railroad	2,945	2,786	1	6	—	—
Vessel Bunkering	1,764	1,699	4,581	4,590	—	—
On-highway Diesel	16,797	17,280	—	—	—	—
Military	701	622	96	116	—	—
Off-highway Diesel	1,756	1,522	—	—	—	—
All Other	701	189	402	194	163	206

Source: *Petroleum Marketing Monthly*, DOE, dated July, issued Oct.

Quick Lubes Gaining Ground Fast; Could Have 15% of Market by 1990

The current slowdown in the do-it-yourself motor oil market might be considered good news for service stations, but it isn't because quick lube facilities are getting almost all of the switchover business.

There are an estimated 1,500 quick lube outlets in the United States, controlling 14% of the installed motor oil market and 4% of the total market. In 1990, there are expected to be 4,000-6,000 quick lube locations, controlling 40% of the installed market and 12%-15% of the total market.

In terms of volume, this represents a growth from 22-25 million gal. in 1986 to 75-90 million gal. by 1990.

This rapid growth is the reason why motor oil suppliers are competing so aggressively for quick lube business, says John F. (Jack) Boehm, president of Valvoline Oil Co. The name of the game is "market share."

'King Volume' in Command

Speaking to the Pacific Oil Conference management institute in late September in Reno, Boehm said:

"The king of the motor oil industry is not the big Q (Quaker State). Nor is it the asked-for-motor oil (Pennzoil) or special oils for special cars (Valvoline). It's not the trooper-tested oil (Texaco's Havoline), nor is it the oil engineered for small cars (Castrol). It's market share.

"All motor oil marketers, big or small, worship that king like never before. That's what a slow-growth market will do. And the competition is vicious."

Although the U.S. market is becoming more and more service oriented, "DIY will never die, but is expected to have a lower share of the total motor oil market in the years to come," Boehm said.

The Valvoline president traced the trend of oil company involvement in quick lubes:

Pennzoil, the pioneer, began opening company-owned outlets in the 1970s. It became the leading U.S. supplier of quick lubes with the signing of a joint-venture agreement earlier this year with Jiffy Lube.

Quaker State, a longtime supplier of independent quick lube chains, recently acquired Minit Lube.

Valvoline, which has supplied quick lube businesses through distributors since the late 1970s, recently announced plans to purchase a 10-year-old chain of 60-plus outlets located primarily in the upper Mid-

The competition for market share among quick lubes is "vicious," says Valvoline's Jack Boehm. Some 4,000 quick lube locations are expected nationwide by 1990.

west and New York state, and has "an aggressive expansion plan."

Boehm noted that some oil marketers "who aren't now in the quick lube business may be considering doing so," on their own or via franchising. "The only advice I could give you is to exercise caution," he said. "It is risky, simply because the market is in its adolescent stage, nowhere near maturity."

New Regs Might Hurt DIY

Describing trends in the motor oil business, Boehm said environmental concerns in the DIY market could hasten the growth of quick lubes in two ways:

"New laws could be passed to make it more difficult for the consumer to change his own motor oil. If that happens, quick lubes will benefit substantially."

Laws could be passed governing the disposal of plastic bottles, in which case "the DIY market would be negatively affected, and quick lubes, again, would benefit."

Another trend is a slow switch of market domination from 10W-40 to 5W-30 and 10W-30, "thanks to General Motors, Ford and Chrysler. The lower-viscosity oils will help their engines meet fuel economy standards and allow faster starts in colder weather," Boehm explained.

The Valvoline president said "trade concentration" is growing in virtually all retail fields—food, drugs, hardware, building materials and supplies, and in the automotive aftermarket.

In the latter, the reason is "earnings of auto parts retail chains have not kept pace with sales growth," adding that "some chains are using acquisition as a growth tool."

Boehm chronicled how most major oil companies lost the motor oil market to independents:

In the shift to do-it-yourself and mass merchandising, "independent motor oil marketers welcomed the changing distribution systems and increasing volumes with open arms. They invested time and manpower in learning how to cater to the DIY market and the retailers who dominated it.

"By the time the shortages of the late '70s arrived, it was too late for many marketers to hold onto their eroding motor oil market shares. Some had lost out on the learning curve.

"By the time consumers had shifted their behavior to DIY, and subsequently their loyalty to independent brands, some major companies found themselves on the outside looking in. Consumer purchase habits had changed, and the independent marketers were way out front."

Changing Patterns

At Valvoline, the changing distribution patterns caused the company to adopt a "packaged goods" marketing approach,

By Mark Emond
Contributing Correspondent

Boehm said. "We began to look at motor oil just as Procter and Gamble looks at soap or deodorant, or the way Coke or Pepsi look at their products.

In the midst of these changes, the large auto parts retail chains—Chief, Grand Auto, Checker, Pep Boys, Trak Auto, Nationwise, and others—emerged, becoming supermarkets for auto parts and supplies.

John F. Boehm

Among traditional oil distributors, the "strong, innovative" ones found a niche in becoming "good, solid, service-oriented, direct-to-store distributors to supply everyday requirements," while the chains purchased direct from the manufacturer for the "sale events."

Boehm traced the market-share trend among the top motor oil suppliers:

Prior to 1980, Quaker State was No. 1 in the passenger-car and light-truck motor oil market, followed by Pennzoil, with Valvoline and Texaco's Havoline running neck and neck for third. Mobil was fifth, followed by Castrol and Shell.

During the next four years, the "Big Five" emerged: Quaker State, Pennzoil, Valvoline, Havoline and Castrol.

The "Big Five," as well as some other motor oil suppliers, are waging "dogfights" in motor oil marketing on three fronts: packaging, marketing and pricing, Boehm said.

Packaging Decisions

In packaging, after the price of oil skyrocketed in the 1970s, Valvoline switched in 1980 from 24-quart cases to 12-quart cases. "The 12-quart case artificially cut the cost of a case of oil in half. It was easier for the do-it-yourselfer to handle and it was easier for the retailer to promote," Boehm said. The rest of the industry followed suit.

In 1984, Quaker State switched 100% to quart plastic bottles. After attempting an alternative package that didn't work out, Valvoline is about to complete a nationwide conversion to plastic bottles.

The marketing battles have been even more fierce, Boehm said. Marketing budgets have "gone off the charts" in the past few years.

It used to be that motor oil suppliers could run media advertising in the spring and fall, but now they must do it strongly all year round, he said.

In motorsport sponsorship, 15 years ago Valvoline was the dominant brand in most forms of auto racing, but today "all leading brands have entered the sport, trying to align with the best teams available," Boehm said.

The most severe competition among motor oil marketers is in pricing, he reported. Top motor oil brands must compete not only with national brands, as Coca Cola or Pepsi do, but also with regional brands.

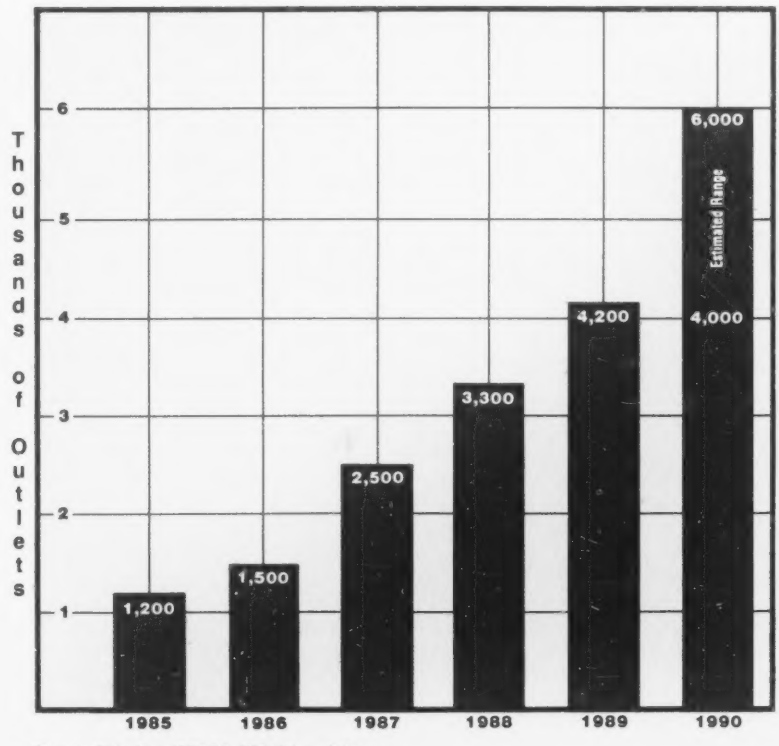
"The price sheet isn't the key any more. It's the deal. You almost have to be an accountant and a statistician to keep up with everybody's current motor oil promotion, but then I'm not telling you anything new," Boehm told jobbers.

Boehm said motor oil suppliers came under criticism recently because their prices did not fall as much as crude prices. He said this expectation is based on a misunderstanding of the cost breakdown of motor oil compared with that of other refined petroleum products, such as gasoline.

Showing a breakdown of packaged motor oil costs, Boehm said, "Motor oil has more items of fixed and variable costs than gasoline, and fluctuations in the price of crude oil don't impact on motor oil as they do on gasoline. That's why you don't see motor oil price patterns paralleling those of gasoline."

As competition in the motor oil market increases, it intensifies the process of "survival of the fittest," Boehm said. He urged jobbers, "Make sure teamwork is a part of your game plan. It doesn't matter if you sell gasoline, fuel oil or motor oil. Align yourself with good, loyal suppliers who understand your needs and your problems." NPN

Projected Growth of U.S. Quick Lube Outlets



Source: Valvoline 1988-89, NPN interpolations.